

**PHOENIX SERVICES, INC.
FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Phoenix Services, Inc.
Clearfield, Utah

We have audited the accompanying statement of financial position of Phoenix Services, Inc. (a non-profit organization) as of June 30, 2011, and the related statement of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Services, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011, on our consideration of Phoenix Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wood Richards & Associates, PC

Ogden, Utah
August 31, 2011

PHOENIX SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Current Assets:

Cash and cash equivalents	\$ 141,915
Accounts receivable (net of allowance of \$3,611)	120,113
Prepaid expenses	16,348
Other current assets	1,757
Total Current Assets	280,133

Property and Equipment:

Land	87,477
Building	465,047
Furniture, fixtures, equipment and software	66,773
Automobiles	16,975
	636,272
Less: Accumulated depreciation	(213,118)
Net Property and Equipment	423,154

Other Assets:

Bond issuance cost (net of amortization)	9,554
Total Other Assets	9,554

Total Assets	\$ 712,841
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 13,338
Accrued expenses	74,051
Current portion of long-term debt	11,041
Total Current Liabilities	98,430

Long-Term Debt:

Notes payable	500,719
Loan payable	14,600
Less: Current Portion	(11,041)
Total Long-Term Debt	504,278

Net Assets - Unrestricted:

Unrestricted	110,133
Total Liabilities and Net Assets	\$ 712,841

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Support

Services Income	\$ 1,269,171
Rental Income	47,398
Contributions and Grants	7,446
Other	1,320

Total Support	<u>1,325,335</u>
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Revenue

Interest	<u>248</u>
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Total Revenue	<u>248</u>
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Total Public Support and Revenue	<u>1,325,583</u>
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Expenses

Program Services	1,040,975
Supporting Services	235,862
Fundraising Expenses	40,541

Total Expenses	<u>1,317,378</u>
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Change in Net Assets	<u>8,205</u>
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Net Assets, Beginning	<u>101,928</u>
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Net Assets, Ending	<u><u>\$ 110,133</u></u>
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The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities	
Change in Net Assets	\$ 8,205
Adjustments to reconcile net cash provided by operating activities:	
Depreciation	15,084
Amortization	1,415
Changes in assets and liabilities:	
Accounts receivable	(4,535)
Prepaid expenses	(9,382)
Other current assets	(1,387)
Accounts payable	6,631
Accrued expenses	663
Net Cash From Operating Activities	<u>16,694</u>
Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(12,309)</u>
Net Cash from Investing Activities	<u>(12,309)</u>
Cash Flows From Financing Activities	
Proceeds from acquisition of fixed assets	14,600
Payments on notes payable	<u>(10,275)</u>
Net Cash From Financing Activities	<u>4,325</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,710
Cash and Cash Equivalents at Beginning of Year	<u>133,205</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 141,915</u></u>
 Total interest paid during the year	 <u>\$ 30,384</u>

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Services	Supporting Services	Fundraising	Total Expenses
Salaries and wages	\$ 703,796	\$ 143,071	\$ 29,169	\$ 876,036
Employee benefits	42,989	6,903	520	50,412
Payroll taxes	58,189	12,088	2,448	72,725
Total	804,974	162,062	32,137	999,173
Amortization	-	1,415	-	1,415
Automobile	2,920	1,132	-	4,052
Bank fees	-	3,142	-	3,142
Communication - other	6,870	263	-	7,133
Dues and subscriptions	3,677	273	-	3,950
Insurance	22,148	11,811	-	33,959
Interest	27,848	2,536	-	30,384
Licenses and permits	733	-	-	733
Maintenance and repairs	4,329	-	-	4,329
Miscellaneous	974	242	-	1,216
Parenting	68,409	-	-	68,409
Professional fees	490	3,900	-	4,390
Program rent	37,031	-	-	37,031
Supplies	17,808	2,829	4,714	25,351
Telephone	17,496	3,737	1,554	22,787
Training	4,012	-	-	4,012
Travel	3,993	39,503	2,136	45,632
Utilities	5,196	-	-	5,196
	223,934	70,783	8,404	303,121
Depreciation	12,067	3,017	-	15,084
Total Expenses	\$ 1,040,975	\$ 235,862	\$ 40,541	\$ 1,317,378

The accompanying notes are an integral part of these financial statements.

PHOENIX SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

A. NATURE OF ACTIVITIES

Phoenix Services, Inc. (the Organization) is a non-profit Utah Corporation providing service to people with disabilities, particularly head trauma injuries. The clients are individually placed in apartments or houses in the community. The Organization supervises the clients and helps them be as self-sustaining as possible.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization follows the generally accepted accounting principles for not-for-profit organizations. The following is a summary of the significant accounting policies.

Financial Statement Presentation- The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets as applicable. In addition, the Organization presents a statement of cash flows.

Revenue Recognition- The Organization has a contract with the State of Utah to provide the services discussed above. The State is billed for the services provided by the Organization to patients. Revenue received from the State is recorded as unrestricted support. Revenues are recognized when services are provided and the State is billed.

Contributions and Donated Services- If and when received, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions are reported as temporarily or permanently restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction or appropriate use of the assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials and equipment are reflected as contributions at their estimated values at date of receipt.

The Organization has received many hours of donated services from volunteers which have not been recorded because no objective basis is available to measure such value and because they do not meet the requirements for recording in the financial statements.

Promises to Give- Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Allocated Expenses- The costs of providing the various programs and services have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and services benefited.

PHOENIX SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment- The Organization follows the practice of capitalizing all expenditures for land, buildings, and equipment in excess of \$500. Donated assets are capitalized at fair value when the value exceeds \$1,000. Depreciation is computed using an accelerated method over the estimated useful lives of the respective assets, which range from five to thirty years.

Income Taxes- The Organization is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for Federal or State income taxes has been made.

Cash and Cash Equivalents- For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Money market funds are considered cash equivalents.

Accounts Receivable – Accounts are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at June 30, 2011 was \$3,611. Changes in the valuation allowance have not been material to the financial statements.

Estimates- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

B. CONCENTRATION OF SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Organization is subject to a concentration of credit risk relating to services income and trade accounts receivable. The Organization has a contract with the State of Utah to provide services to individuals with traumatic brain injuries. For the year ended June 30, 2011 \$1,169,538 or 88.2% of service revenue came from the State of Utah. At June 30, 2011, accounts receivable relating to these service revenues was \$104,370 or 89% of accounts receivable.

C. LONG-TERM LIABILITIES

Note Payable Apartment – In April 2008, the Organization refinanced the apartment building with a note payable to the Utah Community Reinvestment Corporation. The note payable is as follows:

PHOENIX SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

C. LONG-TERM LIABILITIES (continued)

Note Payable Apartment (continued)

Note payable bearing interest at 6.02%;
monthly installments of \$3,142;
due March 1, 2018; secured by the
building. \$ 500,719

Less: current portion 7,778

Notes Payable Long-Term \$ 492,941

Annual maturities of the note payable for each of the next five years are as follows:

Year Ended June 30,	Principal	Interest	Total Debt Service
2012	\$ 7,778	\$ 29,930	\$ 37,708
2013	8,259	29,449	37,708
2014	8,770	28,938	37,708
2015	9,312	28,396	37,708
2016	9,889	27,820	37,709
Thereafter	456,711	47,189	503,900
	<u>\$ 500,719</u>	<u>\$ 191,722</u>	<u>\$ 692,441</u>

Note Payable Vehicle - The Organization made the final payment on a vehicle loan on June 24th, 2011. Interest expense of \$233 was paid in 2011. The note payable is as follows:

Note payable to a bank bearing interest
at 6.50%; monthly installments of \$226;
due July 2011; secured by an automobile.

Note Payable Vehicle – In June 2011, the Organization traded in two older vehicles for a new vehicle. The note payable is as follows:

Note payable bearing interest at 7.00%:
monthly installments of \$351.16; due
June 25th, 2015; secured by the vehicle. \$ 14,600

Less: current portion 3,263

Notes Payable Long-Term \$ 11,337

PHOENIX SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

C. LONG-TERM LIABILITIES (continued)

Annual maturities of the note payable for each of the next four years are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2012	\$ 3,263	\$ 951	\$ 4,214
2013	3,532	682	4,214
2014	3,788	426	4,214
2015	4,017	152	4,169
	<u>\$ 14,600</u>	<u>\$ 2,211</u>	<u>\$ 16,811</u>

D. OPERATING LEASES

The Organization leases office space in two locations: Clearfield and Salt Lake, Utah. The Clearfield lease has monthly rental payments of \$2,602 and expires November 2011 after which the Organization plans on renewing the lease for another 12 months. The Organization estimates the lease will be renewed at a monthly lease payment similar to the prior year. The lease term will be effective January 1, 2012. The Salt Lake office has monthly rental payments of \$300 a month. Rent expense for the year ended June 30, 2011 was \$37,031. The estimated future minimum rental payment under these two leases is \$34,822.

E. EMPLOYEE BENEFIT PLAN

The Organization has adopted a 403(b) Thrift Plan for its employees whereby employees can contribute a certain percentage of their compensation. The Organization contributed \$0 for the year ended June 30, 2011.

F. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 31st, 2011, which is the date the financial statements were available to be issued. It was discovered that there were no subsequent events to be reported.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Phoenix Services, Inc.
Clearfield, Utah

We have audited the financial statements of Phoenix Services, Inc. (a nonprofit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Phoenix Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
August 31, 2011
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phoenix Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates, PC

Ogden, UT
August 31, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
IN ACCORDANCE WITH THE STATE OF UTAH
LEGAL COMPLIANCE AUDIT GUIDE**

Phoenix Services, Inc.
Clearfield, Utah

We have audited Phoenix Services, Inc.'s compliance with the major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2011. Phoenix Services received the following major assistance program from the State of Utah:

DSPD Services

Compliance with the requirements referred to above is the responsibility of Phoenix Services' management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the major assistance program identified above. An audit includes examining, on a test basis, evidence about Phoenix Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Phoenix Services' compliance with those requirements.

In our opinion, Phoenix Services Inc. complied, in all material respects, with the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2011.

This report is intended solely for the information and use of management of the Phoenix Services and is not intended to be and should not be used by anyone other than the(se) specified parties. However, the report is a matter of public record and its distribution is not limited.

Wood Richards & Associates, PC

August 31, 2011